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Message Text

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INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 FEA-02 OMB-01

SAM-01 PM-07 OPIC-12 DRC-01 /188 W
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R 271323Z FEB 74
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 9952
INFO AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

UNCLAS SECTION 1 OF 2 NEW DELHI 2842

E.O. 11652: N/A
TAGS: EGEN ECON IN
SUBJECT: GOI ECONOMIC SURVEY 1973/74

BEGIN SUMMARY THE ANNUAL PRE-BUDGET GOI ECONOMIC SURVEY PRESENTED TO PARLIAMENT ON FEBRUARY 25 CONTAINS A CANDID ACCOUNT OF THE PRESENT DEPRESSED STATE OF THE INDIAN ECONOMY AND HIGHLIGHTS THE COUNTRY'S OVERALL POOR ECONOMIC PERFORMANCE IN THE FOURTH PLAN PERIOD, 1969/74. THE SURVEY PROPERLY SINGLES OUT INFLATION AS THE BIGGEST ECONOMIC PROBLEM CURRENTLY FACING INDIA. WITH SUCH INFLATION, AND CONTINUING RAW MATERIAL AND POWER SHORTAGES, TRANSPORT BOTTLENECKS AND LABOR STRIFE, THE SURVEY FORECASTS A DIFFICULT YEAR AHEAD FOR THE INDIAN ECONOMY. END SUMMARY

1. THE ECONOMIC SURVEY, COPIES OF WHICH ARE BEING TRANSMITTED SEPARATELY UNDER CERP, HIGHLIGHTS THE FOLLOWING MAIN POINTS:
--INDUSTRIAL GROWTH ESTIMATES FOR 1973 INDICATE ONLY A MARGINAL, IF ANY, INCREASE OVER 1972. ACTUAL INDUSTRIAL GROWTH FOR THE FOURTH PLAN PERIOD IS LIKELY TO BE LESS THAN ONE-HALF OF THE
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TOED LEVEL OF BETWEEN EIGHT AND TEN PERCENT A YEAR. FOR

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1974/75, THE FIRST YEAR OF THE FIFTH FIVE YEAR PLAN COMMECING
APRIL 1 THIS YEAR, INDUSTRIAL GROWTH PROSPECTS ARE UNCERTAIN
WITH MAJOR CONSTRAINTS SUCH AS RAW MATERIAL AND POWER SHORTAGES,
AND TRANSPORT BOTTLENECKS CONTINUING TO OPERATE.

--THE WHOLESALE COMMODITY PRICE INDEX INCREASED BY 19.2 PERCENT
IN CY 1973 COMPARED WITH 7.8 PERCENT IN CY 1972. HOWEVER,
FROM END-DECEMBER 1972 TO END-DECEMBER 1973, THE PRICE RISE
WAS AN UNPRECEDENTED 24 PERCENT. THE SHARP 15.8 PERCENT
INCREASE IN MONEY SUPPLY IN 1973, ABNORMALLY LARGE BUDGETARY
DEFICITS IN THE LAST TWO INDIAN FISCAL YEARS, AND THE GENERAL SLOW
DOWN IN ECONOMIC ACTIVITY ARE DESCRIBED AS MAJOR CONTRIBUTORY
FACTORS.

--ACTUAL GOI BUDGET DEFICIT IN IFY 1973/74 IS LIKELY TO BE MORE
THAN TEN TIMES THE BUDGETED LEVEL OF RS. 850 MILLION, MAINLY
BECAUSE OF INCREASED EXPENDITURE ON RELIEF OPERATIONS IN DROUGHT
AFFECTED AREAS, GREATER FOOD SUBSIDIES, ACCEPTANCE BY THE GOI
OF THE PAY COMMISSION'S RECOMMENDATION ON INCREASED WAGES TO
GOVERNMENT EMPLOYEES, REDUCED RAILROAD REVENUES, AND AN
UNEXPECTED SHORTFALL IN EXCISE DUTY RECEIPTS. INTERESTINGLY, THE
ECONOMIC SURVEY ADMITS THAT THE INFLATIONARY IMPACT OF GOVERNMENT
SPENDING IS MASKED BY THE USUAL GOI DEFINITION OF DEFICIT
FINANCING WHICH MAKES A DISTINCTION BETWEEN COMMERCIAL BANK AND
RESERVE BANK CREDIT TO THE GOVERNMENT. CONSIDERING BOTH TYPES OF
CREDIT, GOI INDEBTEDNESS INCREASED BY ABOUT RS. 10.3 BILLION BETWEEN
APRIL 1, 1973 AND JANUARY 25, 1974, OR ROUGHLY 13 PERCENT OF TOTAL
EXPENDITURES BUDGETED AT THE BEGINNING OF THE YEAR.

--NEITHER SAVINGS NOR INVESTMENT, MEASURED AS A PERCENTAGE OF
GNP, TOUCHED IN ANY ONE YEAR OF THE FOURTH PLAN THE 12 PERCENT PEAK
LEVEL REACHED IN 1965/66. IN 1973/74 IT IS LIKELY TO BE 11
PERCENT.

--AGRICULTURAL PRODUCTION IS LIKELY TO SHOW A PROMISING GROWTH OF
BETWEEN 10 AND 15 PERCENT IN CROP YEAR (JULY-JUNE) 1973/74;
WITH FOODGRAIN PRODUCTION ESTIMATED BY THE GOVERNMENT AT
110 MILLION METRIC TONS, COMPARED WITH 95 MILLION METRIC TONS
IN 1972/73. THIS INCREASE IS LARGELY STATISTICAL SINCE IT MERELY
BRINGS FOODGRAIN PRODUCTION BACK TO THE 108.4 MILLION METRIC TON
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LEVEL REACHED IN 1971/72. NEVERTHELESS, SINCE AGRICULTURE ACCOUNTS
FOR NEARLY 50 PERCENT OF INDIA'S NATIONAL INCOME, THIS YEAR'S
INCREASE IN AGRICULTURAL PRODUCTION SHOULD RESULT IN AN OVERALL
REAL ECONOMIC GROWTH RATE OF ABOUT 6 PERCENT IN IFY 1973/74,
COMPARED WITH 1.7 PERCENT IN 1971/72 AND AN ACTUAL DECLINE OF
1.7 PERCENT IN 1972/73. FOR THE FOURTH PLAN PERIOD, 1969/74, THE
AVERAGE ANNUAL INCREASE IN INDIA'S NATIONAL INCOME IS ESTIMATED
AT 3.5 PERCENT COMPARED WITH THE PLAN TARGET OF 5.6 PERCENT.

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THE ACTUAL ACHIEVEMENT IS GROSSLY INADEQUATE FOR A POPULATION
GROWING AT OVER 2 PERCENT ANNUALLY.MOYNIHAN

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-- INDIAN EXPORTS ARE A BRIGHT SPOT. EXPORTS DURING APRIL-
NOVEMBER 1973 WERE NEARLY 21 PERCENT HIGHER THAN IN THE SAME
MONTHS OF 1972. THIS CAME ON TOP OF A 22 PERCENT INCREASE IN
EXPORTS IN THE PREVIOUS FISCAL YEAR 1972/73. IMPORTS, HOWEVER, ARE
ALSO INCREASING AND ARE EXPECTED TO SHOW FURTHER SHARP INCREASE
DUE TO LARGE PRICE INCREASE OF CRUDE. THE RESULT WILL BE
CONSIDERABLE PRESSURE ON INDIA'S BALANCE OF PAYMENTS. SINCE
APRIL 1, 1973 INDIA'S TOTAL FOREIGN EXCHANGE RESERVES HAVE
DECLINED BY ABOUT RS. 700 MILLION (DOLS88 MILLION AT RS.8.00
EQ DOLS1.00) TO A LITTLE LESS THAN FOLS1.2 BILLION AT END-
JANUARY 1974.

2. TO IMPROVE THE ECONOMIC OUTLOOK, THE ECONOMIC SURVEY
RECOMMENDS STRICTER CONTROL ON INFLATION, ENCOURAGEMENT OF
AGRICULTURAL AND INDUSTRIAL GROWTH WITH SPECIAL EMPHASIS ON
GREATER UTILIZATION OF CAPACITY, AND LARGER INVESTMENT IN "
CRITICAL SECTORS" SUCH AS COAL, STEEL, POWER AND IRRIGATION PROJECTS

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WITH MINIMUM DEFICIT FINANCING.

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3. THE SURVEY NOTES THERE IS ONLY A LIMITED SCOPE FOR RAISING ADDITIONAL REVENUE THROUGH DIRECT TAXES LEVIED BY THE CENTRAL GOVERNMENT. IT THEREFORE MAKES A RENEWED CALL FOR THE STATE GOVERNMENTS TO TAX AGRICULTURAL INCOME, ALTHOUGH RECOGNIZING THAT THIS IS A POLITICALLY SENSITIVE ISSUE. THE SURVEY ALSO CALLS FOR MORE EFFICIENT MANAGEMENT OF PUBLIC SECTOR UNDERTAKINGS; WITHDRAWAL OF FISCAL SUBSIDIES; AND STRICTER CONTROL ON TAX EVASION. RENEWED EMPHASIS HAS BEEN PLACED ON EXPORT PROMOTION AND IMPORT SUBS-TITUTION IN THE CONTEXT OF THE PRESENT OIL CRISIS.

4. COMMENT: THE PRESENT ECONOMIC SURVEY CANDIDLY HIGHLIGHTS INDIA'S MAJOR INTER-RELATED ECONOMIC PROBLEMS OF UNABATED HIGH INFLATION, STAGNANT INDUSTRIAL PRODUCTION, AND THE DANGER OF INCREASING GOI RESORT TO DEFICIT FINANCING TO MEET INCREASED EXPENDITURES. THE PRESENTATION CLOSELY FOLLOWS THE RECENT ECONOMIC REVIEW OF THE NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH (NCAER), REPORTED IN NEW DELHI A-59. THE GOI INTENTIONS ARE LIKELY TO BE SPELLED OUT IN THE 1974/75 BUDGET TO BE PRESENTED ON FEBRUARY 28 AND THE IMPORT LICENSING POLICY TO BE RELEASED ON APRIL 1, 1974.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC REPORTS, ECONOMIC DATA, FINANCIAL DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 27 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974NEWDE02842
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974026/aaaaaezi.tel
Line Count: 197
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 25 FEB 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 FEB 2002 by elbezefj>; APPROVED <03 DEC 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI ECONOMIC SURVEY 1973/74 BEGIN SUMMARY THE ANNUAL PRE-BUDGET GOI ECONOMIC SURVEY
TAGS: EGEN, ECON, IN
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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